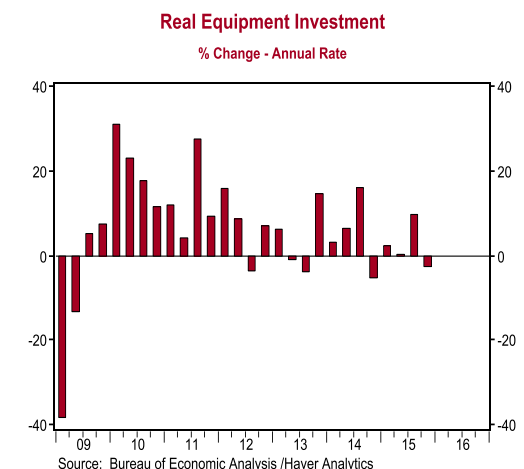
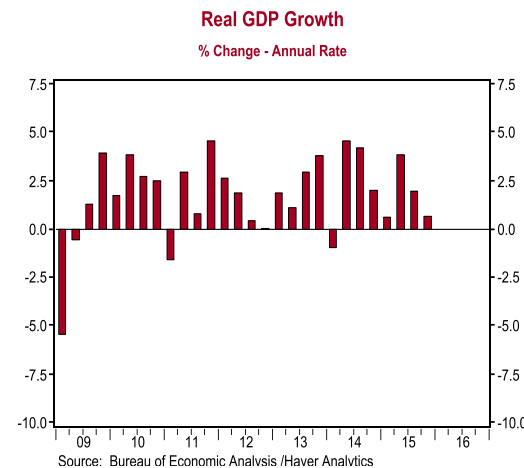


## Fourth Quarter GDP (Advance)

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- The first estimate for Q4 real GDP growth is 0.7% at an annual rate, almost exactly the 0.8% the consensus expected. Real GDP is up 1.8% from a year ago.
- The largest positive contribution to the Q4 real GDP growth rate was consumer spending. The largest drags were net exports and inventories.
- Combined, personal consumption, business investment, and home building were up at a 1.8% annual rate in Q4 and 2.7% in the past year.
- The GDP price index rose 0.8% in Q4 and is up 1.1% from a year ago. Nominal GDP – real GDP plus inflation – rose at a 1.5% rate in Q4, is up 2.9% from a year ago, and up at a 3.4% annual rate from two years ago.

**Implications:** Today’s GDP report should dispel any doubt that the economy remains a Plow Horse. Real GDP grew at a tepid 0.7% annual rate in the fourth quarter, almost exactly as expected. In turn, that means real GDP grew only 1.8% in 2015, the least since 2012. However, it’s not much different than the average annualized growth rate of 2.1% since the recovery started in mid-2009. Also, as we forecast in a recent Monday Morning Outlook (link), the details of the report were a bit stronger than the headline. One of the biggest drags on growth in Q4 was inventories, which should leave more room for future production. We like to focus on what we call “core” GDP growth, which excludes inventories, government, and trade. Core GDP grew at a 1.8% rate in Q4 and is up 2.7% from a year ago. The gain in Q4 was led by a 2.2% increase in consumer spending and an 8.2% increase in home building. That’s why we’re sticking to our forecast that the economy will grow around 2.5% in 2016, the unemployment rate will continue to decline, and the Federal Reserve will keep gradually lifting short-term interest rates. Nominal GDP – real GDP growth plus inflation – rose at a 1.5% rate in Q4, is up 2.9% in the past year, and is up at a 3.4% annual rate in the past two years. Historically, any of these figures is consistent with higher short-term interest rates than the Fed is now targeting. Yes, Plow Horse economic growth is soft by historical standards, but loose monetary policy is not the cure. Instead, the economy needs lower marginal tax rates, less regulation, and entitlement reform, which require action by the President and Congress. In other news this morning, the Chicago PMI, a measure of Midwest manufacturing sentiment, rebounded sharply to 55.6 in January from 42.9 in December. That’s the highest level in a year and the largest gain for any single month on record, going back to the 1960s. This is a sign that the manufacturing sector is starting to rebound from the sudden and rapid drop in fracking activity. In other recent news, pending home sales, which are contracts on existing homes, increased 0.1% in December, suggesting a further slight gain in existing home sales in the months ahead.



<b>4th Quarter GDP</b> <i>Seasonally Adjusted Annual Rates</i>	<b>Q4-15</b>	<b>Q3-15</b>	<b>Q2-15</b>	<b>Q1-15</b>	<b>4-Quarter Change</b>
<b>Real GDP</b>	<b>0.7%</b>	2.0%	3.9%	0.6%	<b>1.8%</b>
<b>GDP Price Index</b>	<b>0.8%</b>	1.3%	2.1%	0.1%	<b>1.1%</b>
<b>Nominal GDP</b>	<b>1.5%</b>	3.3%	6.1%	0.8%	<b>2.9%</b>
<b>PCE</b>	<b>2.2%</b>	3.0%	3.6%	1.7%	<b>2.6%</b>
<b>Business Investment</b>	<b>-1.8%</b>	2.6%	4.1%	1.6%	<b>1.6%</b>
<b>Structures</b>	<b>-5.2%</b>	-7.2%	6.3%	-7.4%	<b>-3.6%</b>
<b>Equipment</b>	<b>-2.5%</b>	9.9%	0.3%	2.3%	<b>2.4%</b>
<b>Intellectual Property</b>	<b>1.6%</b>	-0.8%	8.3%	7.4%	<b>4.1%</b>
<b>Contributions to GDP Growth (p.pts.)</b>	<b>Q4-15</b>	<b>Q3-15</b>	<b>Q2-15</b>	<b>Q1-15</b>	<b>4Q Avg.</b>
<b>PCE</b>	<b>1.5</b>	2.0	2.4	1.2	<b>1.8</b>
<b>Business Investment</b>	<b>-0.2</b>	0.3	0.5	0.2	<b>0.2</b>
<b>Residential Investment</b>	<b>0.3</b>	0.3	0.3	0.3	<b>0.3</b>
<b>Inventories</b>	<b>-0.5</b>	-0.7	0.0	0.9	<b>-0.1</b>
<b>Government</b>	<b>0.1</b>	0.3	0.5	0.0	<b>0.2</b>
<b>Net Exports</b>	<b>-0.5</b>	-0.3	0.2	-1.9	<b>-0.6</b>